



The Intergovernmental Cooperation Authority
for Harrisburg
922 N. 3rd Street
Harrisburg, PA 17102

September 28, 2021

The Honorable Eric Papenfuse
Mayor, City of Harrisburg
Dr. Martin Luther King, Jr., Government Center
10 N. Second Street
Harrisburg, PA 17101

Dear Mayor Papenfuse:

This correspondence shall constitute an official request under the Intergovernmental Cooperation Authorities Act of 2018 (“Act 124”) to provide information as enumerated herein.

The Intergovernmental Cooperation Authority for Harrisburg (the “Authority”) has contacted you, your office, and representatives of the City of Harrisburg (the “Assisted City”) numerous times, including correspondence to you dated August 18, 2021 and July 12, 2021. Copies of these letters are attached hereto.

The Authority renews its earlier requests to you to provide information on the matters identified in this correspondence, concerning the Assisted City’s adherence to the Five-Year Financial Plan (as amended and restated on June 11, 2021 and approved by the Authority on July 8, 2021, the “Five-Year Financial Plan” or “Plan”). These matters address the implementation of the initiatives set forth in the Plan and specific updates on the City’s financial situation.

Collections in the Neighborhood Services Fund

The Authority infers that progress is lacking on the initiative to improve the collections rate in the Neighborhood Services Fund. The monthly revenue and expenditure reports provided by the City Controller’s office suggest no improvement has been realized in the collections rate. The short report provided by Dan Connelly via email on September 22, 2021 was deemed non-responsive.

In the Five-Year Plan it is stated:

The City has identified several tasks that are each assigned a lead that will develop a more detailed action plan and benchmarks. The Business Administrator will meet with task leads on at least a quarterly basis to review progress on implementing each initiative and ensure the team is working collaboratively where appropriate.

Please provide the list of tasks, the assignments of leads, and a copy of the detailed action plan and benchmarks as indicated above.

Please confirm if the quarterly meetings have taken place as indicated, and provide copies of all written materials related to such meetings, including agendas, minutes, reports, etc.

Implementation of the new financial management software

Mr. Woolley indicated via email on September 20, 2021 that he will be drafting a regular status report regarding the ERP implementation phases for public transparency purposes. Jeffrey Stonehill, the Authority Manager, was able to attend the City Council meeting to hear the Tyler presentation and receive the information regarding the breadth of the software capacity and its multi-year implementation. The ICA's interests lie primarily in the financial software which we note is the first priority. Please specify when the first report will be created and the regularity of subsequent reports. Please confirm the Authority will receive copies via direct distribution.

Mr. Stonehill has years of municipal software experience would be pleased to attend and participate in the City's steering committee meetings related to the software implementation. In doing so, he could share insights and advice from previous software conversions to assist City staff in this important work."

Establishment of the OPEB Trust

Mr. Connelly indicated via email on September 22, 2021 that members of the OPEB Trust have not yet been appointed. Please specify when the City expects to make its appointments. In addition, please confirm if the City has been in contact with other appointing bodies to expedite the naming of their appointments.

Ambac negotiations

Mr. Connelly reported on the current status of this matter at the September 22, 2021 meeting of the Authority Board. Therefore this information request is resolved.

As stated at the September 22, 2021 meeting, the Authority urges the City, working in conjunction with City Council, to establish an acceptable plan as soon as possible and capitalize on this opportunity to reduce the City's debt.

Act 47 and the approval of the intergovernmental agreement

Neil Grover reported on the current status of this matter at the September 22 meeting of the Authority Board. Nevertheless, please still provide an update in advance of the next Authority meeting.

City of Harrisburg 2020 audit

Please provide an update on the progress of the City's 2020 audit.

Implementation of a plan for the American Rescue Plan Act ("ARPA") funding

Please provide a written update on the City's planning for the use of ARPA funding.

Additional reports

There were two side-letters promised by Marc Woolley as a part of the correspondence on the Five-Year Plan: "The City will provide a breakout of the overtime expenses in a separate future side letter," and "The City will provide budget vs. actual reports for other capital projects in a separate future side letter."

In his email of September 22, Mr. Connelly indicates the City will provide these reports prior to the October meeting of the Authority. Please note the deadline for submission at the end of this letter.


Deadline for submission

We respectfully ask that all responses be provided no later than **Monday, October 18, 2021** which will afford Authority members adequate time to review the information prior the regularly scheduled October meeting.

Please be advised that failure to comply with this notice as an assisted city under Act 124 may result in the Authority taking official action to remedy noncompliance.

Please contact Jeffrey Stonehill, Authority Manager, no later than **Thursday, September 30, 2021** to acknowledge your receipt of this correspondence and to make any other arrangements as may be necessary to provide your full and complete cooperation.

Sincerely,



Audry Carter, Chair

Cc: Authority Members

Marc Woolley



The Intergovernmental Cooperation Authority
for Harrisburg
922 N 3rd Street
Harrisburg, PA 17102

August 18, 2021

The Honorable Eric Papenfuse
Mayor, City of Harrisburg
Dr. Martin Luther King, Jr., Government Center
10 N. Second Street
Harrisburg, PA 17101

Re: ICA Board Meeting on August 25, 2021

Dear Mayor Papenfuse:

Thank you in advance for your consideration on this matter. We have been informed by Dan Connelly, City of Harrisburg representative to the ICA Board, that he will be unable to attend the upcoming meeting on August 25, 2021, in person at Temple University Harrisburg.

According to Chair Audry Carter, it was stated that Mr. Connelly would be present at the August meeting in order to deliver a mid-year financial update on the activities of the City. Further, there are outstanding financial management issues of concern outlined by the Authority with which the Board requires update:

- Collections in the Neighborhood Services Fund,
- Implementation of the new financial management software,
- Establishment of the OPEB Trust,
- Ambac negotiations,
- Act 47 and the approval of the intergovernmental agreement,
- 2020 audit, and
- Implementation of a plan for the American Rescue Plan Act funding.

Finally, there were two side-letters promised by Marc Woolley as a part of the correspondence on the Five-Year Plan: "The City will provide a breakout of the overtime expenses in a separate future side letter," and "The City will provide budget vs. actual reports for other capital projects in a separate future side letter."

Correspondence to Mayor Papenfuse

Perhaps the City could send someone to report on these important issues to the ICA Board. A written report is also acceptable. The meeting begins at 4:00 p.m. Your assistance in this matter is appreciated.

Feel free to contact me at 717-645-5431 if you have any questions.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jeffrey Stonehill".

Jeffrey Stonehill, Authority Manager

c.c. Authority Members
Dan Connelly, Marathon Capital Strategies



The Intergovernmental Cooperation Authority
for Harrisburg
922 N. 3rd Street
Harrisburg, PA 17102

July 12, 2021

The Honorable Eric Papenfuse
Mayor, City of Harrisburg
Dr. Martin Luther King, Jr., Government Center
10 N. Second Street
Harrisburg, PA 17101

Re: Approval of the 2021 City of Harrisburg Five-Year Financial Plan

Dear Mayor Papenfuse:

On Thursday, July 8, 2021, the Board of the Intergovernmental Cooperation Authority for Harrisburg (ICA) approved the final revision of the 2021 City of Harrisburg Five-Year Financial Plan, pursuant to Act 124 of 2018, Section 209, *Financial Plan of the Assisted City*. This submission was dated, June 11, 2021, as it contained some corrections pointed out at the May 26, 2021 meeting, and represents a satisfactory 2021 submission for the City of Harrisburg.

While there was much discussion on the refinancing and defeasing strategy laid out in the Five-Year Financial Plan, your administration requested that the Plan remain as presented. As events unfold that course may or may not change, so please keep us informed.

The following is a summary of the Board's other comments on the final submission:

- *Emphasis on transition to incoming administration:* The final amended and restated plan document places too much emphasis on the next administration. While some of the plan touches on matters that will now be policy choices of the new administration and so it is understandable that those matters of ICA commentary are not addressed, the City nonetheless has significant work it must accomplish over the remainder of 2021. There is no practical way to abdicate from the significant work that remains to be accomplished including for example, issues such as use of the American Rescue Plan Act federal funds, the planned upgrade and

Correspondence to Mayor Papenfuse re: 2021 Five-Year Plan

installation of a new Enterprise Resource Planning software package, and the recruitment/retention of key City personnel.

- *Concern remains with the stability of the Neighborhood Services Fund:* The ICA Board cannot wait until 2022 to measure whether the decisions made regarding capital projects, intermunicipal agreements, and collection of outstanding receivables have a positive impact on the fund and its fiscal stability.
- *Absence of Economic Development Strategic Plan:* The plan revisions and Mr. Woolley's note regarding the timeline and process for the development of the promised Economic Development Plan are matters of concern. There is much unfinished work on this important and consequential project. That said, the ICA Board understands that this timeline and process hinges on the hire of a replacement economic development director and in the meantime appreciates the plan's acknowledgement that sound and planned economic growth is the key element of City sustainability going forward.
- *Other Post-Employment Benefits Trust Fund:* While the project to establish the OPEB Trust Fund is underway, we hope it will be fully established shortly in addition to addressing the other items needed for the City's planned exit from Act 47. The Board is concerned that the delays in establishment of the fund may cause fiscal stresses that overshadow the significant unfunded liability of Other Post-Employment Benefits themselves.

As additional information on concerns expressed previously, I have attached a copy of the Memorandum of May 20, 2021 to Dan Connelly from Jeffrey Stonehill to which Marc Woolley responded by letter on June 11, 2021. In that correspondence Mr. Woolley indicated that he would be addressing two issues (reference numbers 15 and 20) with a side letter. We would like to ask that those letters be shared with us no later than September 1, 2020.

We look forward to continuing to work collaboratively through the end of your administration and thank you for the City's responsiveness during this planning cycle. We will continue to rely on Dan Connelly to provide us with ongoing updates. Given the mid-year FY21 financials, we are optimistic that the FY21 budget complemented with ARPA funding initiatives puts Harrisburg's future in a promising position.

Please feel free to reach out to me if you have any questions.

Sincerely,



Audry Carter
Chair

c.c. Authority Members



MEMORANDUM

5/20/2021

To: Dan Connelly, City of Harrisburg Member ex-officio, ICA Board
 From: Jeffrey Stonehill, Authority Manager, ICA of Harrisburg
 RE: 2021 Five-Year Financial Plan dated Apr. 30, 2021

The ICA Board gave approval to the 2020 Plan on March 5, 2021, with the Authority and the City understanding that there were a number of issues and recommendations with that Plan that would be addressed in the 2021 submittal. The City commentary in the Marc Woolley letter that accompanies the 2021 proposed Plan responds point-by-point to each of the issues the Authority raised in that earlier transmittal, and as such is well organized and well presented for the purpose, showing evidence of City commitment to engage fully in the review. Further, it provides a helpful summary and explanation of updates and changes made in the 2021 Plan that represent issues and initiatives other than those raised in the earlier ICA commentary.

Finally, while many elements of this Plan describe transactional and administrative changes, we note there are plan elements that are dependent on statistical analysis to both set and measure benchmarks and goals, a practice that greatly aids both the City and the Authority in gauging progress and adjusting to circumstantial changes. These are noted in our analysis.

The following represents the consolidated commentary of the draft five-year financial plan.

| REF # | PAGE | HEADING / REMARKS |
|--------|------|--|
| Issues | | |
| 1 | 10 | <i>Transfers from Other Funds</i> / Presuming transfers now undertaken are only for direct recovery of incidental costs not otherwise reflected in the NSF program structure, affirmatively state this policy. |
| 2 | 11 | <i>Improve Collection Rates in the Neighborhood Services Fund</i> / The City should examine and comment on the potential to achieve a 93% collection rate in year 1, rather than year 2. |
| 3 | 11 | <i>Improve Collection Rates in the Neighborhood Services Fund (Cont'd)</i> / The collection of past due accounts (recently ±\$12 million according to treasury) is not accounted for in this document. Please provide a summary of useful statistics on past due accounts, explain how these receivables are accounted for (or not) in City books, and provide financial forecasts related to collections. |
| 4 | 13 | <i>Waste Removal</i> / Please provide cost vs. benefit analysis for in-house waste removal versus outsourcing to a third-party private hauler as is commonplace for regional municipalities. |

| REF # | PAGE | HEADING / REMARKS |
|-------|-------|---|
| 5 | 12-13 | <i>Headcount</i> / Please consider innovative alternatives such as: contract with third-party public or private service providers, partnerships with other governments (e.g. Dauphin County) to eliminate personnel needs, innovative technologies; etc. |
| 6 | 18 | <i>Community Services Division</i> / The new Community Services Division represents an increasingly common strategy to policing in recognition of the inherent complexity of incident response. Please add narrative to indicate development and implementation of an appropriate performance measurement. Is training scheduled for these staff, particularly CSAs, on specialized skills for initial intervention/contact? |
| 7 | 33 | <i>Promote Economic Development</i> / Revise or explain what is the "City's Five-Year Economic Development Plan." According to previous submissions, a plan does not yet exist and is to be developed. |
| 8 | 38 | <i>Capital Project Budgeting</i> / This appears to describe the Capital Projects Fund only. Please provide a description of methods of estimating capital projects budgets for all funds. |
| 9 | 43 | <i>Neighborhood Services Fund</i> / While acknowledging that indirect cost recovery at the municipal level is not generally done with the same level of detail as it might be in a private contracting, please consider a more appropriate transfer from the NSF to General Fund. Incorporate in this review whether there are any other readily identifiable indirect costs, including for example, billing costs in the Treasurer's office or facility costs for equipment maintenance and storage. |
| 10 | 44 | <i>Neighborhood Services Fund (cont'd)</i> / In paragraph 6, and as noted in Ref. 24 and Ref. 25, the issue of NSF fund balance bears further analysis. What is the justification for "fund balance equal to one month of annual operating expenses," given notations elsewhere that the typical fund balance benchmark is two months? |
| 11 | 3 | <i>American Rescue Plan Act</i> / The "estimated" allocation can be updated now that the actual amount is known. Can you provide more details on possible use of proceeds? |
| 12 | 5 | <i>Basis of Accounting</i> / The first paragraph is convoluted and should be revised so that it is useful and informative for readers. |
| 13 | 8 | <i>Real Estate Taxes</i> / Total combined land and value components are almost 50% tax-exempt, with state property representing approximately 60% of that total." Initiate discussions with the school district and county regarding tax-exempt properties and the potential for a mutual strategy on review of qualification of existing properties, evaluation and possible intervention in new exemption requests, and a common strategy on PILOTs. |
| 14 | 11 | <i>Revenue Initiatives: PILOTs</i> / Seeing both the narrative and the variability in receipts in the chart on p. 7 are PILOT contributions contractually based and if so what is the typical term? Is the primary focus on larger exempts (hospitals and health systems), and what portion of the exemption base is represented by larger exempts versus smaller qualified non-profits? Consider a wider program beyond merely sending out annual letters. |
| 15 | 21 | <i>Salaries and Wages – Projection</i> / Please provide a breakout of overtime amounts in the different divisions. The 2% annual increase is included in the projections but the breakout is not detailed. Further, in the Expenses Initiative summary, Medical Expenses are to account for \$1 million savings annually. However, in the Expense projections, medical expenses go up every year by approximately \$500K. Please clarify. |

| REF # | PAGE | HEADING / REMARKS |
|-------|------|---|
| 16 | 25 | <i>Other-Post Employment Benefits</i> / January 1, 2018 is the date of the most recent valuation. When will the City perform a “new valuation”? Some of the details and suggestions noted earlier in this commentary would be helpful for inclusion here. In addition, acknowledging the mixed reviews on prefunding OPEB liability, has the City ever given it consideration? |
| 17 | 30 | <i>Expense Forecasts</i> / Please breakout “Debt Service” into mandatory and optional components. What contributes to the drops in Services, Supplies, and Other Operating Costs between 2021 and 2022, on their own and in comparison to the Expense Growth Assumptions chart on page 26? |
| 18 | 33 | <i>Implement Workforce Stabilization Program</i> / Are there any other key vacancies and/or turnover? |
| 19 | 34 | <i>LERTA</i> / Indicate a timeline and objectives for this review, and the criteria for the City’s determination whether to move to a 100% abatement level. |
| 20 | 39 | <i>2020 Completed Facilities Capital Projects</i> / Please provide budget vs. actual for all budgeted capital projects, not just facilities. Completed Facilities Capital Projects: what does that paragraph mean? Why do projects go over budget? |
| 21 | 42 | <i>Operating Forecasts, 2021-2025</i> / Please move to clerical and encourage General Fund added to table heading. |
| 22 | 43 | <i>Principal Proprietary Funds - Neighborhood Services Fund</i> / Given the direction the fund takes in 2025, more discussion is needed for its long-term projections and whether the narrative’s level of confidence that it is balanced over time is warranted. The spend-down scenario seemed to match the projections when we were only looking as far as 2024, but the number for 2025 is an unwelcome addition and seems unsupportable. It raises concerns for 2026 and beyond; while the result is a 2025 fund balance still above one month of operating cost, its trend line reinvigorates our long term concern about full fund balance depletion. Even nominally, following the stated balancing strategy, the 2025 differential would amount to (rough math) a 1.5% rate increase to balance that year alone. In addition, separately, like the expense forecasts noted above, there is an unexplained drop between 2021 and 2022 in the service and supplies line items before a return to marginal growth of 2% year over year (also not wholly squaring with the narrative’s assertion of contractual fee increases between 2.5% and 8%). Even the reserve target needs additional explanation, with the assertion elsewhere that the GFOA target is two months’ expenses. |
| 23 | 44 | <i>Principal Proprietary Funds - Neighborhood Services Fund (cont’d)</i> / The cost analysis provides greater insight from the first report of the Steelton project received last year. However, there remain operational questions: Cost for staff allocated partially for Steelton, Paxtang and Penbrook; a \$50K escrow fund from Paxtang and impact on NSF fund balance; why no similar requirement of the other two agreements; NSF Personnel costs went up \$872K from FY20 actuals to FY21 projections (assume 6 positions tally about \$360K. What would explain the additional increase?); and regarding collections, how is City responding to the suggestion that the Treasurer has been promoting for the last three years? |

| REF # | PAGE | HEADING / REMARKS |
|--|---------------|---|
| Clerical/Grammatical | | |
| 24 | 1 | <i>Extension of Special Taxing Powers</i> / Confirm "20%" statistic. It is 19% according to the table on page 7. |
| 25 | 2 | <i>Extension of Special Taxing Powers (cont'd)</i> / Undo bold style. |
| 26 | 6 | <i>Operating Results</i> / Please add numbering for all figures, tables, etc. (e.g., Figure 1). |
| 27 | 8 | <i>Ground Lease/City Priority Payments</i> / Check this statement: "Per the asset transfer agreement, the City was [estimated?] to receive \$2.3 million [...]" |
| 28 | 16 | <i>Headcount</i> / Confirm the figure of 498.5 FTEs. The individual figures provided add up to 508.5. |
| 29 | 26 | <i>Expense Growth Assumptions, 2021-2024</i> / "See Expense Initiatives 4-1(2) 5.1(2) " |
| 30 | 27 | <i>Consider Options to Finance the Series 2005A-2 Bond Defeasance [...]</i> / "[...]" but it is the City's intention to avoid that scenario all together <u>altogether</u> ." |
| 31 | 27 | (cont'd) / Update "\$38.8 million." |
| 32 | 28 | <i>Annual Debt Service Comparison</i> / Check format consistency for the last row. |
| 33 | 29 | <i>Debt/Liability Balance Comparison</i> / Check format consistency for the last row. |
| 34 | 33 | <i>Implement Workforce Stabilization Program</i> / "[...] a candidate that meets all of the department's needs as has not been identified." |
| Comments on City Responses to ICA Five Year Commentary (Marc Woolley Letter) | | |
| 35 | 6-7 | <i>Audit Findings and Accounting</i> / In general, this acknowledges the ICA concerns and indicates City willingness to work with ICA on resolution of accounting practices, GASB and GAAP compliance, along with resolution of audit findings. It refers to specific sections of the Plan dealing with each of these matters, and we note this is also a stipulation of the Intergovernmental Cooperation Agreement. The question of how a city the size of Harrisburg meets GASB and GAAP requirements remains unresolved: is it one where there is compliance in the first instance upfront by keeping books in modified accrual form and the system and staff are capable of generating compliant reports, or is it one where cash-basis accounting and post-activity, third-party generation of compliant reports are acceptable. It may revolve on a difference between operational optimization and statute; the latter is compliant with statute while the former gives managers and the public a more accurate and actionable picture of finances on a real-time basis. That said, the letter's recap of information presented previously to the ICA Board and the offer to meet with the auditors on these matters can help further illuminate these differences and find a defensible goal and strategy going forward. |
| 36 | 8, 10, 11, 23 | <i>Neighborhood Services Fund Overhead</i> / The additional detail is responsive and helpful (including the Steelton/Paxtang notes at the end of the letter), acknowledging the history, structure and the actual numbers for determination and allocation of overhead. The philosophical note on general policy regarding charge-back of program-specific overhead to the general fund is acknowledged and is appropriate. The corrections regarding (11) are acknowledged. |

| REF # | PAGE | HEADING / REMARKS |
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| 37 | 24 | <i>Neighborhood Services Fund balance draw-down</i> / This appears to be a candid review and assessment of current and future conditions, and appropriately recognizes strategies for capital and service costs as well as potential for both fund balance and rate-payers if grant funding options do not materialize or collection rates do not improve to the anticipated levels or on the anticipated timeline. An explanation would be helpful on the change in the reserve target (one month versus the prior stated percentage) and the difference between this and the two-month reserve goal for the general fund. |

In summary, thank you very much for the opportunity to present these questions and comments to the City of Harrisburg in response to your draft Mayor's Five-Year Plan, as presented April 30, 2021.